

3 3298 00353 9799



Knowledge Network Corporation
ANNUAL REPORT 2008-2009

DOC
BC
K6
B:S47
2008/09
c.3

Knowledge:

Table of Contents

| | |
|---|----|
| Message from the Board Chair to Minister Responsible | 1 |
| Organizational Overview | 3 |
| Governance | 5 |
| Report on Performance Goals | 6 |
| Progress Against Shareholder's Letter of Expectations | 13 |
| Financial Report | 17 |
| Summary of Financial Results and Budget Projections – 2005/06 to 2011/12 | 20 |
| Appendix A – 2008/09 Audited Financial Statements | 21 |

Message from Board Chair to Minister Responsible

It's my pleasure to present Knowledge Network Corporation's Annual Service Plan Report for the 2008/09 fiscal year.



It's been a year of great changes for **Knowledge**, a transformation that began in 2006, when the then Ministry of Advanced Education appointed a new Board of Directors to set a new direction for British Columbia's public educational broadcaster. Our strategic vision culminated in September 2008 with the launch of **Knowledge**, a 24/7, all-digital, re-branded programming service on television and the internet.

The changes at **Knowledge** reflect the unique role public educational broadcasting plays in the lives of British Columbians. We offer a trusted, commercial-free programming service with a distinct BC world view. Enabling British Columbians to learn about new ideas and explore their interests, in ways that are engaging and challenging, is fundamental to what **Knowledge** does.

Digital conversion played a significant role in our new direction. With a one-time grant of \$2.73M from the Ministry of Advanced Education and Labour Market Development, we built a state-of-the-art digital broadcast facility to meet the growing demand for educational content on internet and mobile platforms. As a result, British Columbians will have greater access to relevant, BC-focused, online content that provides opportunities for interaction and participation from people throughout the province.

This past fiscal, we reached significant milestones at **Knowledge**:

- Achieved Crown corporation status in June 2008.
- Received a full seven-year broadcast licence from the CRTC, our first in over 10 years.
- Launched a 24/7 digital broadcast service.
- Launched **Picture BC** – an interactive website, in partnership with the Ministry of Tourism, Culture and the Arts and the Union of BC Municipalities.
- Launched our rebranded, all-day children's programming block **Knowledge Kids**.
- Premiered **The Graduates: A History of Higher Education in BC**, funded through the Ministry of Advanced Education and Labour Market Development to celebrate the 150th anniversary of British Columbia.
- Reached an all-time record audience share of 5.3% in primetime for audiences 18+ (BBM Nielsen Media Research) for an overall season average increase of 7%.
- Received a 37% increase in funding from the Canadian Television Fund (CTF) as a direct result of our investment in independent productions.

Our accomplishments over the past year have been made possible thanks to the efforts of **Knowledge** management and staff. Their commitment to making the Board's strategic direction a reality has revitalized **Knowledge** and strengthened our role as BC's public educational broadcaster.

The year was not without its challenges. Two out of three targets under our Revenue Generation goal - Media Partnership Revenue and Endowment Investment Revenue - were directly impacted by the current global recession. While key media partnership contracts were secured and fulfilled, our target fell short of the mark. While our actual endowment contributions have been steadily increasing, our endowment investment revenue is down. Despite the weak economic environment, we exceeded our target for Partners in Knowledge donations, raising record-breaking funds from 26,000 donor households.

LEGISLATIVE LIBRARY
VICTORIA, B.C. V8V 1X4 AUG 13 2009

Knowledge will continue to mitigate the risks tied to revenue generation by developing strategies to diversify our donor base, and explore other business opportunities to exploit our studio facility. **Knowledge** ended the 2008/09 fiscal year with a surplus (excluding the transfer of land to the British Columbia Institute of Technology as noted in our audited financial statements).

The Department of Canadian Heritage announced changes to the Canadian Television Fund (CTF) in March 2009. We do not yet know how the new Canadian Media Fund will allocate funding to Canada's public educational broadcasters starting in fiscal 2009/10. **Knowledge**, as part of the Association for Tele-Education in Canada (ATEC), is working with the CTF to ensure equitable access for British Columbia's independent production sector.

The 2008/09 Knowledge Network Corporation Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The Board is accountable for the contents of the report, including what has been included and how it has been reported.

The information presented reflects the actual performance of Knowledge Network Corporation for the twelve months ended March 31, 2009 in relation to the February 2008 service plan. The measures presented are consistent with Knowledge Network Corporation's mandate, goals, and strategies, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant decisions, events, and identified risks, as of March 31, 2009, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best of judgment and management. Any changes in mandate direction, goals, strategies, measures, or targets made since the February 2008 service plan was released and any significant limitations in the reliability of data are identified in this report.

Sincerely,



Ron Burnett
Chair, Knowledge Network Corporation
Board of Directors



New digital Master Control Room at Knowledge, September 2008: Stephen Simpson, CRTC Commissioner for British Columbia and Yukon; Dr. Ron Burnett, Chair of Knowledge Network Corporation Board of Directors; the Honourable Murray Coell, Minister of Advanced Education and Labour Market Development; Rudy Buttignol, President and CEO of Knowledge Network Corporation.

Organizational Overview

Knowledge is British Columbia's public educational broadcaster. Our mission is to provide all British Columbians with a trusted alternative for the commercial-free exploration of life, connecting them to the world through television and the internet.

Enabling Legislation

Knowledge is a Crown corporation created in July 2008 under the Knowledge Network Corporation Act. The purpose of the Corporation, as outlined in the Act and the Shareholder's Letter of Expectations, is to:

- carry on the business of broadcasting and communications to provide unique, quality educational programming to British Columbians,
- promote lifelong learning in British Columbia by providing quality educational programming,
- inform and educate British Columbians about their province and about issues that are relevant to them,
- provide British Columbians with a unique television experience, and
- collaborate with the independent television and web media production sectors in British Columbia.

Knowledge Core Services

Public educational broadcasting serves as a catalyst for behavioural and attitudinal change that can motivate broad-based cultural change. **Knowledge** strives to provide British Columbians with television and internet content that reflects and nurtures BC voices, values, and experiences. We also provide content that explores new ideas and relevant issues from local, national, and international perspectives. Many of our programs offer fundamental knowledge and skills upon which other learning can be built. We do this by:

- distributing commercial-free, educational content to all British Columbians through television and the internet,
- researching, filtering, licensing, and packaging content from British Columbia, Canada, and around the world that supports lifelong learning,
- commissioning, prelicensing, and developing original content for television and the internet, and
- building and managing the charitable arm of **Knowledge**, including donations, legacy gifts, and bequests.

Values

Staff and management of **Knowledge** worked together to develop our five corporate values:

Trust

We serve the public interest and deliver on our brand promise.

Integrity

We work to the best of our abilities, engaging in principled decision-making and ensuring independence in programming.

Respect

We demonstrate due regard for everyone and strive to reflect diverse points of view.

Accountability

We are open, responsible, and transparent in the conduct of our business.

Quality

We strive for excellence in the selection, presentation, and distribution of our programming and in our interactions with all those we serve.

Benefit to British Columbians

Knowledge provides a range of cultural, economic, and social benefits to British Columbians including:

Literacy and Early Childhood Development

Knowledge provides BC's children with a safe, trusted, healthy environment in which to learn and grow.

Economic Development

Knowledge's commissioning and licensing of original content helps BC's independent production sector attract additional financing from provincial, national, and international sources.

Creative Economy

Independent production companies supported by **Knowledge** employ writers, directors, editors, performers, technicians, and support personnel. Further, through development funding and formal internships with colleges and universities, we reach

out to new and emerging talent, providing unique opportunities for professional development in the television and new media workplace.

BC Content

Knowledge offers programs of direct relevance to British Columbians, cultivating dialogue and encouraging participation in our culturally diverse, vibrant, and dynamic province.

Accessible and Commercial-free

Knowledge has mandatory carriage on cable and direct-to-home satellite. Our programming has no interruptions and no commercial advertising.

Principal Partners, Clients, and Stakeholders

As a public educational broadcaster, **Knowledge** serves all British Columbians. Our key stakeholders include the Government of British Columbia, our 26,000 Partners In Knowledge, the independent production community, and the Canadian Radio-television and Telecommunications Commission (CRTC).

As of March 31, 2009 Knowledge had 47.7 full-time equivalent positions.

Minister of Advanced Education and Labour Market Development

Honourable Murray Coell

Board of Directors

Dr. Ron Burnett, Chair

President and Chief Executive Officer

Rudy Buttignol

Director of Finance

Jeffrey Lee

Payroll, Facilities, Purchasing, Accounting

Director of Human Resources

Tracey Balogh

Recruitment and Training, Compensation, Employee Relations

Director of Independent Production and Presentation

Murray Battle

Programming, Independent Production, Branding

Director of Business and Content Management

Sarah MacDonald

Production Management, Media Partnerships, Business Affairs

Director of Government and Public Relations

Glenna Pollon

Government Affairs, Regulatory, Research, Cmns.

Director of Development

Claudia Steeves

Partners In Knowledge, Endowment Fund, Major Gifts

Director of Broadcast Operations and Information Technology

Oliver Eichel

Broadcast Operations, Corporate Technology, Engineering

out to new and emerging talent, providing unique opportunities for professional development in the television and new media workplace.

BC Content

Knowledge offers programs of direct relevance to British Columbians, cultivating dialogue and encouraging participation in our culturally diverse, vibrant, and dynamic province.

Accessible and Commercial-free

Knowledge has mandatory carriage on cable and direct-to-home satellite. Our programming has no interruptions and no commercial advertising.

Principal Partners, Clients, and Stakeholders

As a public educational broadcaster, **Knowledge** serves all British Columbians. Our key stakeholders include the Government of British Columbia, our 26,000 Partners In Knowledge, the independent production community, and the Canadian Radio-television and Telecommunications Commission (CRTC).

As of March 31, 2009 Knowledge had 47.7 full-time equivalent positions.

How We Deliver Services

Knowledge delivers educational content to British Columbians via television through mandatory carriage on cable and direct-to-home satellite services, and via the internet at Knowledge.ca.ca, Knowledgekids.ca. We also develop, prelicense, and commission filmmaker-driven creative documentaries for broadcast on **Knowledge**.

Location

Knowledge Network Corporation is located at:
4355 Mathissi Place
Burnaby, British Columbia
V5G 4S8

Minister of Advanced Education and Labour Market Development

Honourable Murray Coell

Board of Directors

Dr. Ron Burnett, Chair

President and Chief Executive Officer

Rudy Buttignol

Director of Finance

Jeffrey Lee
Payroll,
Facilities,
Purchasing,
Accounting

Director of Human Resources

Tracey Balogh
Recruitment and Training,
Compensation,
Employee Relations

Director of Independent Production and Presentation

Murray Battle
Programming,
Independent Production,
Branding

Director of Business and Content Management

Sarah MacDonald
Production Management,
Media Partnerships,
Business Affairs

Director of Government and Public Relations

Glenna Pollon
Government Affairs,
Regulatory Research,
Cmns.

Director of Development

Claudia Steeves
Partners In Knowledge,
Endowment Fund, Major Gifts

Director of Broadcast Operations and Information Technology

Olive Eichel
Broadcast Operations,
Corporate Technology,
Engineering

Governance

The corporate status of **Knowledge** is governed by the Knowledge Network Corporation Act of British Columbia.

Board of Directors

The Board of Directors of **Knowledge** are appointed by the Lieutenant-Governor in Council. The Ministry of Advanced Education and Labour Market Development is responsible for policy direction while the Board is responsible for operational policy and setting the strategic direction of the organization. The Board also monitors performance based on the Province's planning and reporting principles.

The Board delegates responsibility for the day-to-day leadership and management to the President and Chief Executive Officer. The Board has systems in place to ensure that their operations and decision-making processes are consistent with the Board Resource Development Office Guidelines. The Board's governance principles, sections of our Best Practices document, and Board biographies are available at Knowledge.ca/whowere.

As of March 31, 2009, the Board of Directors at **Knowledge** are:

Dr. Ron Burnett (Chair)

Nini Baird (Vice Chair)

Beth Haddon (Secretary)

Sinclair Mar

Rick Buchols

Patricia Sollars

Dave Calder

Mitchell Taylor

The shareholder is the Province of British Columbia as represented by the Minister of Advanced Education and Labour Market Development. **Knowledge** holds two other designations that inform our organizational and business decisions:

1. **Knowledge** is licensed through the Canadian Radio-television and Telecommunications Commission (CRTC) to broadcast educational programming in British Columbia.

2 **Knowledge** is a registered charity, engaging in fundraising activities through our Partners In Knowledge program. Funds raised support the acquisition and production of educational and entertaining content from British Columbia and around the world.

Committees

There are four standing Committees that support the role of the Board in fulfilling its obligations and responsibilities.

Audit Committee

The purpose of the Committee is to ensure that the audit process, financial reporting, budgets, and risk management systems are reliable, efficient, and effective. Members: Rick Buchols, Sinclair Mar, Mitchell Taylor.

Governance Committee

The purpose of the Committee is to ensure that **Knowledge** develops and implements governance objectives and policies. Members: Sinclair Mar, Patricia Sollars, Dave Calder.

Strategic Planning Committee

The purpose of the Committee is to ensure **Knowledge**'s strategic direction meets the public policy objectives identified in the Knowledge Network Corporation Act. Members: Nini Baird, Beth Haddon, Mitchell Taylor.

Human Resources Committee

The purpose of the Committee is to ensure **Knowledge**'s compensation and human resource philosophies and strategies are in keeping with our mission, values, and key goals, as well as our legislative and government policy guidelines and requirements. Members: Committee of the whole.

Report on Performance Goals

The following report measures performance against our goals, measures, and targets from our 2008/09 to 2010/11 Service Plan released in February 2008.

Knowledge has five strategic goals supported by key performance measures and targets. The order of goals changed to reflect our priorities in fiscal 2008/09.

1) Branding

Brand **Knowledge** as British Columbia's only independent, digital, commercial-free educational media service that reflects the province's diversity and supports the lifelong pursuit of knowledge.

Strategies

1. Design and implement a new brand for **Knowledge**.
2. Develop a new broadcast schedule architecture.

2) Revenue Generation

Diversify and grow revenue streams to support programming on **Knowledge**.

Strategies

1. Build on charitable donations from Partners in Knowledge.
2. Build on an endowment fund to support long-term revenue growth.
3. Establish media partnerships by offering the network's airtime, in exchange for revenue or in-kind consideration, for public service-oriented campaigns such as tourism and public health issues.

3) Team Recruitment and Development

Recruit and develop a team with the necessary skills to provide a trusted alternative for the commercial-free exploration of life, connecting British Columbians to the world through television and the internet.

Strategies

1. Develop a process for management to assess training and development opportunities for staff.
2. Develop training plans for all staff.
3. Develop an internship program with BC colleges and universities.

4) Independent Production Partnerships

Build new relationships with BC's independent production sector.

Strategy

Collaborate with independent television and web producers in BC to develop, co-finance and produce original content.

5) Original Programming on Television and the Internet

Expand BC-originated content.

Strategies

1. Create new children's characters to enhance the daily connections **Knowledge** makes with young children and their parents, while promoting diversity and early childhood learning.

2. Support arts and culture documentaries that reflect local, regional, and international issues that are relevant to British Columbians.
3. Expand internet content by developing new corporate and Partner In Knowledge websites, to engage new audiences and donors.

Adjustments

We adjusted our performance measure for goal number 4 in fall 2008 - Independent Production Partnerships - to align it with our business model which includes expanding BC independent production partnerships. Our new measure, which is framed in terms of amounts leveraged, better reflects the unique role **Knowledge** plays within the independent production community in British Columbia. This measure includes digital content produced for the internet. Our strategy continues to focus on collaboration with independent television and web producers in British Columbia to develop, co-finance and produce original content.

We will begin reporting out on this measure in fiscal 2009/10.

Previous Performance Measures and Targets for Goal #4

| Performance Measures | Targets | | | | |
|--|----------------------|-----------------------|---------------------|---------------------|---------------------|
| | 2006/2007 Actuals | 2007/2008 Forecast | 2008/2009 Target | 2009/2010 Target | 2010/2011 Target |
| New Economic Independent Production Activity (Original Documentaries) | N/A | N/A | \$750,000 | \$1.9M | \$2.55M |
| Amount Leveraged from Independent Production Activity (Original Documentaries) | N/A | N/A | \$563,063 | \$1.46M | \$1.91M |

Revised Performance Measure and Target for Goal #4

| Performance Measures | Targets | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Knowledge Funding + Other Co-funding Sources | | | \$1.00 + \$1.00 = | \$1.00 + \$1.07 = | \$1.00 + \$1.15 = |
| Economic Development Through New Independent Productions in BC | N/A | N/A | \$2.00 | \$2.07 | \$2.15 |

Benchmarks

The public policy objectives for **Knowledge** are very specific to the needs and circumstances of the province of British Columbia. Each of the five public educational broadcasters in Canada have business models based on their respective relationships with their provincial governments and the conditions of their federal broadcast licenses. Consequently, **Knowledge**'s performance is benchmarked internally against past performance. We continue to research a broad range of external benchmarks within the broadcast and not-for-profit sector, both nationally and internationally.

Knowledge has 10 performance measures supporting our five strategic goals. Using industry standard broadcast measurement tools (including audience ratings and broadcast inventory, scheduling, and reporting software), we established internal benchmarks for all of our performance measures.

- 2 Support arts and culture documentaries that reflect local, regional, and international issues that are relevant to British Columbians.
- 3 Expand internet content by developing new corporate and Partner In Knowledge websites, to engage new audiences and donors.

Adjustments

We adjusted our performance measure for goal number 4 in fall 2008 - Independent Production Partnerships - to align it with our business model which includes expanding BC independent production partnerships. Our new measure, which is framed in terms of amounts leveraged, better reflects the unique role **Knowledge** plays within the independent production community in British Columbia. This measure includes digital content produced for the internet. Our strategy continues to focus on collaboration with independent television and web producers in British Columbia to develop, co-finance and produce original content.

We will begin reporting out on this measure in fiscal 2009/10.

Previous Performance Measures and Targets for Goal #4

| Performance Measures | Targets | | | | |
|--|----------------------|-----------------------|---------------------|---------------------|---------------------|
| | 2006/2007 Actuals | 2007/2008 Forecast | 2008/2009 Target | 2009/2010 Target | 2010/2011 Target |
| New Economic Independent Production Activity (Original Documentaries) | N/A | N/A | \$750,000 | \$1.9M | \$2.55M |
| Amount Leveraged from Independent Production Activity (Original Documentaries) | N/A | N/A | \$563,063 | \$1.46M | \$1.91M |

Revised Performance Measure and Target for Goal #4

| Performance Measures | Targets | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Knowledge Funding + Other Co-funding Sources | | | \$1.00 + \$1.00 = | \$1.00 + \$1.07 = | \$1.00 + \$1.15 = |
| Economic Development Through New Independent Productions in BC | N/A | N/A | \$2.00 | \$2.07 | \$2.15 |

Benchmarks

The public policy objectives for **Knowledge** are very specific to the needs and circumstances of the province of British Columbia. Each of the five public educational broadcasters in Canada have business models based on their respective relationships with their provincial governments and the conditions of their federal broadcast licenses. Consequently, **Knowledge's** performance is benchmarked internally against past performance. We continue to research a broad range of external benchmarks within the broadcast and not-for-profit sector, both nationally and internationally.

Knowledge has 10 performance measures supporting our five strategic goals. Using industry standard broadcast measurement tools (including audience ratings and broadcast inventory, scheduling, and reporting software), we established internal benchmarks for all of our performance measures.

Goal #1 Branding

Importance Of Measures

The measures in this section focus on our success in connecting British Columbians to content that supports lifelong learning.

Average Weekly Reach

We measure average weekly reach across our entire broadcast schedule for four broadcast seasons using data from BBM-Nielson Media Research, the national provider of TV, radio and consumer information. Average weekly reach is the unduplicated number of people aged two years or more viewing at least one minute of programming in British Columbia.¹ BBM-NMR's estimates are based on 95% confidence interval. The percentages represent the differences compared to 2006/07 Actuals.

Brand Awareness

We conduct research each spring using Ipsos Reid's BC Reid Express Omnibus Surveys to measure awareness of **Knowledge** in British Columbia.²

Knowledge Web Usage

We measure **Knowledge** web usage in British Columbia each fiscal year using Google Analytics. We track visits or sessions to our website, defined as a period of interaction between a visitor's browser and a particular website, ending when the browser is closed or shut down.

| Performance Measures | Targets | | | | | | |
|--------------------------------|--|-----------------------|----------------------|---------------------|---------------------|---------------------|------------------|
| | (Projections Based on 2006/2007 Actuals) | | | | | | |
| 2006/2007 Actuals | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target | |
| Average Weekly Reach Spring | 1,114,000 | 1,213,000 7.8% | 1,159,560 4% | 1,169,000 4.94% | 1,180,840 6% | 1,203,120 8% | 1,225,400 10% |
| Average Weekly Reach Summer | 1,045,000 | 1,037,000 -1.7% | 1,065,900 2% | 1,134,000 8.52% | 1,086,800 4% | 1,107,700 6% | 1,128,600 8% |
| Average Weekly Reach Fall | 1,190,000 | 1,221,000 1.6% | 1,237,600 4% | 1,207,000 14.3% | 1,261,400 6% | 1,285,200 8% | 1,309,000 10% |
| Average Weekly Reach Winter | 1,186,000 | 1,220,000 1.8% | 1,233,400 4% | 1,333,000 12.39% | 1,257,160 6% | 1,280,880 8% | 1,304,600 10% |

| Performance Measures | Targets | | | | | |
|---|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Percentage of British Columbians Aware of Knowledge as a Public Broadcaster | 25% | 30% | 34% | 40% | 50% | 60% |
| Knowledge Web Visits in British Columbia | 580,000 | 585,000 1% | 515,136 -11.94% | 597,000 3% | 609,000 5% | 620,600 7% |

Targets are based on 2006/2007 actuals

² 2007/08 actual is based on Spring 2007 Knowledge Segmentation Study conducted by Ipsos Reid.
1,716 surveyed with margin of error of ± 2.4% (at 95% confidence level).

Performance Summary

Knowledge met four of six forecasts under our Branding goal. We did not meet Average Weekly Reach Fall, which we attribute to the introduction of our new look, new programming, and new schedule architecture in September 2008. Once BC audiences familiarized themselves with our new brand, our audience numbers jumped significantly. We exceeded our Average Weekly Reach Winter forecast by over 8%.

Our forecast for **Knowledge** web visits in British Columbia was not met due to upgrades to our information technology and web infrastructure. This resulted in four days of down time for our internet network. **Knowledge** averaged approximately 43,000 monthly web visits by British Columbians in fiscal 2008/09.

Goal #2 Revenue Generation

Importance Of Measures

The measures in this section focus on **Knowledge**'s loyal and generous donor base as well as our new opportunity for media partnerships. Increasing our Partners In Knowledge donations will support the acquisition of programs from BC, Canada and around the world. Increased donations will also increase support for prelicensing of British Columbian and Canadian programming. **Knowledge**'s access to large audiences across the province presents opportunities for organizations that have relevant information in the public interest. We will provide access to these audiences through media partnerships.

Partners In Knowledge Donations

We measure this activity by tracking Partners In Knowledge gross revenues though our financial software system and donor database.

Endowment Investment Revenue

Our measurement for investment revenue follows an investment strategy based on an average return of 4% going towards growing capital in the endowment and 4% going towards annual programming needs.

Media Partnerships Revenue

We measure this activity annually by the revenue generated through schedule underwriting and sponsorship initiatives.

| Performance Measures | Targets | | | | | |
|---------------------------------|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Partners In Knowledge Donations | \$217M | \$215M | \$2.2M | \$2.2M | \$2.25M | \$2.30M |
| Endowment Investment Revenue | \$15,000 | \$20,000 | \$0 | \$25,000 | \$30,000 | \$35,000 |
| Media Partnerships Revenue | N/A | \$100,000 | \$56,519 | \$125,000 | \$150,000 | \$175,000 |

Goal #1 Branding

Importance Of Measures

The measures in this section focus on our success in connecting British Columbians to content that supports lifelong learning.

Average Weekly Reach

We measure average weekly reach across our entire broadcast schedule for four broadcast seasons using data from BBM-Nielson Media Research, the national provider of TV, radio and consumer information. Average weekly reach is the unduplicated number of people aged two years or more viewing at least one minute of programming in British Columbia.¹ BBM-NMR's estimates are based on 95% confidence interval. The percentages represent the differences compared to 2006/07 Actuals.

Brand Awareness

We conduct research each spring using Ipsos Reid's BC Reid Express Omnibus Surveys to measure awareness of Knowledge in British Columbia.²

Knowledge Web Usage

We measure Knowledge web usage in British Columbia each fiscal year using Google Analytics. We track visits or sessions to our website, defined as a period of interaction between a visitor's browser and a particular website, ending when the browser is closed or shut down.

| Performance Measures | Targets (Projections Based on 2006/2007 Actuals) | | | | | | |
|--------------------------------|---|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2006/2007 Actuals | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Average Weekly Reach Spring | 1,114,000 | 1,213,000 | 1,159,560 | 1,169,000 | 1,180,840 | 1,203,120 | 1,225,400 |
| Average Weekly Reach Summer | 1,045,000 | 1,037,000 | 1,065,900 | 1,134,000 | 1,086,800 | 1,107,700 | 1,128,600 |
| Average Weekly Reach Fall | 1,190,000 | 1,221,000 | 1,237,600 | 1,207,000 | 1,261,400 | 1,285,200 | 1,309,000 |
| Average Weekly Reach Winter | 1,186,000 | 1,220,000 | 1,233,400 | 1,333,000 | 1,257,160 | 1,280,880 | 1,304,600 |

| Performance Measures | Targets | | | | | |
|---|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Percentage of British Columbians Aware of Knowledge as a Public Broadcaster | 25% | 30% | 34% | 40% | 50% | 60% |
| Knowledge Web Visits in British Columbia | 580,000 | 585,000 | 515,136 -11.94% | 597,000 3% | 609,000 5% | 620,600 7% |

¹ Targets are based on 2006/2007 actuals.

² 2007/08 actual is based on Spring 2007 Knowledge Segmentation Study conducted by Ipsos Reid
1,716 surveyed with margin of error of ± 2.4% (at 95% confidence level).

Performance Summary

Knowledge met four of six forecasts under our Branding goal. We did not meet Average Weekly Reach Fall, which we attribute to the introduction of our new look, new programming, and new schedule architecture in September 2008. Once BC audiences familiarized themselves with our new brand, our audience numbers jumped significantly. We exceeded our Average Weekly Reach Winter forecast by over 8%.

Our forecast for **Knowledge** web visits in British Columbia was not met due to upgrades to our information technology and web infrastructure. This resulted in four days of down time for our internet network. **Knowledge** averaged approximately 43,000 monthly web visits by British Columbians in fiscal 2008/09.

Goal #2 Revenue Generation

Importance Of Measures

The measures in this section focus on **Knowledge**'s loyal and generous donor base as well as our new opportunity for media partnerships. Increasing our Partners In Knowledge donations will support the acquisition of programs from BC, Canada and around the world. Increased donations will also increase support for prelicensing of British Columbian and Canadian programming. **Knowledge**'s access to large audiences across the province presents opportunities for organizations that have relevant information in the public interest. We will provide access to these audiences through media partnerships.

Partners In Knowledge Donations

We measure this activity by tracking Partners In Knowledge gross revenues though our financial software system and donor database.

Endowment Investment Revenue

Our measurement for investment revenue follows an investment strategy based on an average return of 4% going towards growing capital in the endowment and 4% going towards annual programming needs.

Media Partnerships Revenue

We measure this activity annually by the revenue generated through schedule underwriting and sponsorship initiatives.

| Performance Measures | Targets | | | | | |
|---------------------------------|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Partners In Knowledge Donations | \$2.17M | \$2.15M | \$2.2M | \$2.2M | \$2.25M | \$2.30M |
| Endowment Investment Revenue | \$15,000 | \$20,000 | \$0 | \$25,000 | \$30,000 | \$35,000 |
| Media Partnerships Revenue | N/A | \$100,000 | \$56,519 | \$125,000 | \$150,000 | \$175,000 |

Performance Summary

Knowledge met one of three forecasts under our Revenue Generation goal. Our Endowment Investment Revenue was significantly impacted by the current economic environment. Despite the drop in investment revenue, our actual endowment contributions have been steadily increasing, putting us in a good position when the economy recovers.

Media Partnerships Revenue was also impacted by the current economic environment. Key contracts were secured and fulfilled; however, we did not meet our forecast and may revise targets in the fall if economic conditions have not improved.

Goal #3 Team Recruitment and Development

Importance Of Measure

Knowledge is committed to the training, professional development and performance management of staff. We provide an environment that fosters individual contribution and growth in the achievement of the corporation's goals and objectives.

Percentage of Staff Participating in Training and/or Development Opportunities

We measure this activity by tracking the percentage of staff who participated in training and development opportunities annually in support of our goals.

| Performance Measures | Targets | | | | | |
|--|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Percentage of Staff Participating in Training and/or Development Opportunities in Support of Knowledge Goals | 33% | 50% | 50% | 75% | 100% | 100% |

Performance Summary

Knowledge met our forecast for supporting staff training and development, including recruiting two interns from Capilano University.

Goal #4 Independent Production Partnerships

Importance Of Measure

This measure focuses on the unique role **Knowledge** plays within British Columbia's independent production community. As a distinguished contributor of BC-generated digital content, **Knowledge** supports economic development through new partnerships with the independent production sector in British Columbia.

Leveraging Factor

Our measure for this activity is framed in terms of amounts leveraged: **Knowledge** funding + other co-funding sources = economic development through new independent productions in BC. For example, in 2009/10, every \$1 of **Knowledge** funding will leverage \$1 in funding from other sources, resulting in \$2 of economic development through new independent productions in BC.

| Performance Measures | Targets | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Knowledge Funding + Other Co-funding Sources | | | | \$1.00 + \$1.00 = | \$1.00 + \$1.07 = | \$1.00 + \$1.15 = |
| Economic Development Through New Independent Productions in BC | N/A | N/A | N/A | \$2.00 | \$2.07 | \$2.15 |

Performance Summary

Knowledge revised performance measures for independent production partnerships in our Service Plan and will begin reporting out on targets in 2009/10.

Goal #5 Original Programming on Television and the Internet

Importance Of Measures

The measures in this section focus on our commitment to providing British Columbians with a unique television and internet experience. Increasing BC content will give British Columbians a window to their world—their communities, histories, and cultures—while also providing a world view on current issues that are shaping our future. Working with independent partners, we plan to find new ways of reaching existing audiences and connecting with new audiences through the internet.

Number of New Program Hours

We measure the number of new program hours annually using customized reports generated from our broadcast inventory software. Long-form programs, fifteen minutes or more, will be measured during the 6 p.m. to midnight viewing period.

Percentage of Broadcast Schedule that Contains BC Content

We measure BC content annually using customized reports generated from our broadcast inventory software, during the 6 p.m. to midnight viewing period.

Performance Summary

Knowledge met one of three forecasts under our Revenue Generation goal. Our Endowment Investment Revenue was significantly impacted by the current economic environment. Despite the drop in investment revenue, our actual endowment contributions have been steadily increasing, putting us in a good position when the economy recovers.

Media Partnerships Revenue was also impacted by the current economic environment. Key contracts were secured and fulfilled; however, we did not meet our forecast and may revise targets in the fall if economic conditions have not improved.

Goal #3 Team Recruitment and Development

Importance Of Measure

Knowledge is committed to the training, professional development and performance management of staff. We provide an environment that fosters individual contribution and growth in the achievement of the corporation's goals and objectives.

Percentage of Staff Participating in Training and/or Development Opportunities

We measure this activity by tracking the percentage of staff who participated in training and development opportunities annually in support of our goals.

| Performance Measures | Targets | | | | | |
|--|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Percentage of Staff Participating in Training and/or Development Opportunities in Support of Knowledge Goals | 33% | 50% | 50% | 75% | 100% | 100% |

Performance Summary

Knowledge met our forecast for supporting staff training and development, including recruiting two interns from Capilano University.

Goal #4 Independent Production Partnerships

Importance Of Measure

This measure focuses on the unique role **Knowledge** plays within British Columbia's independent production community. As a distinguished contributor of BC-generated digital content, **Knowledge** supports economic development through new partnerships with the independent production sector in British Columbia.

Leveraging Factor

Our measure for this activity is framed in terms of amounts leveraged: **Knowledge** funding + other co-funding sources = economic development through new independent productions in BC. For example, in 2009/10, every \$1 of **Knowledge** funding will leverage \$1 in funding from other sources, resulting in \$2 of economic development through new independent productions in BC.

| Performance Measures | Targets | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Knowledge Funding + Other Co-funding Sources | | | | \$1.00 + \$1.00 = | \$1.00 + \$1.07 = | \$1.00 + \$1.15 = |
| Economic Development Through New Independent Productions in BC | N/A | N/A | N/A | \$2.00 | \$2.07 | \$2.15 |

Performance Summary

Knowledge revised performance measures for independent production partnerships in our Service Plan and will begin reporting out on targets in 2009/10.

Goal #5 Original Programming on Television and the Internet

Importance Of Measures

The measures in this section focus on our commitment to providing British Columbians with a unique television and internet experience. Increasing BC content will give British Columbians a window to their world—their communities, histories, and cultures—while also providing a world view on current issues that are shaping our future. Working with independent partners, we plan to find new ways of reaching existing audiences and connecting with new audiences through the internet.

Number of New Program Hours

We measure the number of new program hours annually using customized reports generated from our broadcast inventory software. Long-form programs, fifteen minutes or more, will be measured during the 6 p.m. to midnight viewing period.

Percentage of Broadcast Schedule that Contains BC Content

We measure BC content annually using customized reports generated from our broadcast inventory software, during the 6 p.m. to midnight viewing period.

| Performance Measures | Targets | | | | | |
|---|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Number of New Program Hours (Broadcast Annually) | 779 | 815 | 801 | 850 | 885 | 920 |
| Percentage of Broadcast Schedule that Contains BC Content (6 p.m. to Midnight)¹ | 16% | 12% | 14% | 13% | 14% | 15% |

2007/08 Actuals include BC content from our discontinued in-house production model. Our new business model supports the generation of BC content through commissions. Due to the time required to commission new content to delivery of the final product, we anticipated airing less BC content in 2008/09. The targets for this performance measure are also tied to available funds.

Performance Summary

Knowledge met one of two forecasts under this goal, exceeding the Percentage of Broadcast Schedule that Contains BC Content by 2%, with an actual of 14%. We were very close to meeting our forecast for Number of Program Hours, attaining 98% of our goal, with an average of 2.19 hours per day of new programs.

| Performance Measures | Targets | | | | | |
|---|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007/2008 Actuals | 2008/2009 Forecast | 2008/2009 Actuals | 2009/2010 Target | 2010/2011 Target | 2011/2012 Target |
| Number of New Program Hours (Broadcast Annually) | 779 | 815 | 801 | 850 | 885 | 920 |
| Percentage of Broadcast Schedule that Contains BC Content (6 p.m. to Midnight)¹ | 16% | 12% | 14% | 13% | 14% | 15% |

¹ 2007/08 Actuals include BC content from our discontinued in-house production model. Our new business model supports the generation of BC content through commissions. Due to the time required to commission new content to delivery of the final product, we anticipated airing less BC content in 2008/09. The targets for this performance measure are also tied to available funds.

Performance Summary

Knowledge met one of two forecasts under this goal, exceeding the Percentage of Broadcast Schedule that Contains BC Content by 2%, with an actual of 14%. We were very close to meeting our forecast for Number of Program Hours, attaining 98% of our goal, with an average of 2.19 hours per day of new programs.

Progress Against Shareholder's Letter Of Expectations

Below are the specific directions outlined in the Shareholder's Letter of Expectations and our actions in fiscal 2008/09.

| Specific Direction To The Corporation | Knowledge Actions in 2008/09 |
|---|---|
| Retain the building and property at 4355 Mathissi Place, Burnaby, BC until directed that it be transferred to another public post-secondary institution. | Under the Ministry's direction, Knowledge transferred the building at 4355 Mathissi Place to the British Columbia Institute of Technology (BCIT) in June 2008. |
| Until the Mathissi Place building and property are transferred, maintain and manage the building and property, and report to the Shareholder on matters pertaining to operating costs, tenant issues, major repairs, capital upgrades and any other matters that materially affect the value and future use of the building by the public post-secondary system. | We continued to manage operations at 4355 Mathissi Place, including covering operating costs, until the building was transferred to BCIT. |
| Undertake capital upgrades necessary to convert Knowledge Network's (KN's) studio and broadcast facilities from an analogue platform to a digital platform. These upgrades are to conform to the timeline, budget, and specifications described in Knowledge Network's digital transformation plan, which was submitted to the Ministry of Advanced Education (AVED) on August 17, 2007. | Digital conversion was completed in February 2009, on budget. We now have a state-of-the-art digital platform from which to build on our broadcast and internet activities. |
| Undertake activities necessary to pursue the goals described in KN's strategic plan, which was submitted to AVED on July 25, 2007. Specifically, the Corporation will: 1) Brand Knowledge Network as British Columbia's only independent, digital, commercial-free educational media service that reflects the province's diversity and multiculturalism and supports the lifelong pursuit of knowledge. | Knowledge launched a re-branded programming service in September 2008, including new broadcast schedule architecture. Program highlights: <i>One Thousand and One Voices</i> explores the diversity of musical styles connected to Islam. <i>Fatherhood Dreams</i> follows four gay men and the challenges they face in becoming parents. <i>Wipe Out</i> tells the story of three young BC men who suffered traumatic brain injury while pursuing extreme sports. <i>FASD - Finding Hope</i> examines the challenging reality of families with young children who live with Fetal Alcohol Spectrum Disorder. <i>Landscape as Muse IV</i> featured two BC artists: Kelowna's David Alexander and Dempsey Bob, noted Tahltan-Tlingit carver. |
| 2) Initiate a major expansion of original local and regional television and internet programming that informs and educates British Columbians about their province and engages them in daily issues that are relevant to their lives. | Some expansion of original BC content has been accomplished and more will be pursued when funds become available. |

| Specific Direction To The Corporation | Knowledge Actions in 2008/09 |
|--|---|
| 3) Collaborate with British Columbia's independent television and internet content production sector through public-private partnerships. | We will engage in an aggressive expansion of collaboration with the independent production community when funds become available. |
| 4) Increase self-generated revenue by establishing media partnerships and increasing individual philanthropic donations. | We secured and fulfilled three media partnerships. Partners In Knowledge donations continue to grow, exceeding this year's target by 3% for a total of \$2,228,000. Our endowment fund revenue was impacted by the current economic environment, but contributions have been steadily increasing. |
| 5) Recruit and develop a team with the necessary skills to transform the network from an analogue to a digital service, and the capability to engage the independent production sector to collaborate in providing British Columbia with a unique television experience. | We recruited a new position to work directly with the independent production sector, and continued with our staff training and development program. |
| <p>Include in these activities television and/or internet programming that reflect:</p> <p>a) the spirit of Act Now BC;</p> | <p>Program highlights:</p> <p>Taste Buds is a cooking show for kids, teaching fun ways to make healthy, tasty dishes in the kitchen.</p> <p>Hi-S is a fun series for preschoolers focusing on music, movement, and laughter.</p> <p>Senior's Nutrition is a series of shorts created through a partnership between the Ministry of Healthy Living and Sport and the BC Dairy Foundation to provide healthy lifestyle tips for older adults in BC.</p> |
| <p>b) BC's role as the gateway between Canada and the Asia Pacific;</p> | <p>Program highlights:</p> <p>Indian School follows a year in the life of students at two very different schools in Pune, India, one of the world's fastest growing cities.</p> <p>Chinese School is a look at school life through the eyes of students in China.</p> <p>Cinema Asia provides a unique window on cinema in Asia.</p> <p>Lai Man Wai: The Father of Chinese Cinema looks at the 40-year career of Lai Man Wai, who produced Hong Kong's first short film.</p> <p>Ju Ming explores the life and work of the acclaimed Taiwanese sculptor.</p> <p>The Slanted Screen explores the depiction of Asian men in American cinema and television, chronicling the struggle against ethnic stereotyping and limiting roles.</p> |

| Specific Direction To The Corporation | Knowledge Actions in 2008/09 |
|--|---|
| c) the promotion of literacy, including early learning initiatives and adult literacy; | <p>Program highlights:</p> <p>Our children's programming is specifically chosen to support cognitive, social, emotional, and creative development. Skills-specific programs may promote language development (<i>Word Girl, Martha Speaks, Word World</i>), mathematical and scientific concepts such as categorizations, sequencing, and comparisons (<i>Sid the Science Kid, Peep and the Big Wide World, Animal Numbers</i>) and creativity through art (<i>Get Squiggling</i>). All share an overall goal of developing attitudes, values, capabilities, and prospects for lifelong learning.</p> <p><i>My Different Life</i> is a documentary that offers insight into the world of the learning disabled, illuminating the many hurdles they must overcome and the triumphs that can be achieved if parents and schools are afforded adequate support.</p> <p><i>Commanding Heights: The Battle of the World Economy</i> is based on the book by Pulitzer Prize winner Daniel Yergin and Joseph Stanislaw. As the global financial crisis threatened economic stability around the world, Knowledge pre-empted regular scheduled programming in fall 2008 to explore this significant issue facing the province's viewers.</p> |
| d) aboriginal communities, culture, and issues; | <p>Program highlights:</p> <p><i>Totem: The Return of the G'psgolox Pole</i> follows the fascinating journey of the Haisla people of northwestern BC as they reclaim a traditional mortuary pole that disappeared from their village in 1929.</p> <p><i>Ravens and Eagles</i> is an exploration of the unique voices of Haida artists.</p> <p><i>Reservation Soldiers</i> follows three aboriginal teenagers from remote reservations who join the Canadian military.</p> <p><i>Buffy Sainte-Marie: A Multimedia Life</i> follows her debut as a folk singer in the early '60s through her years as a political activist to her current life as a digital artist and educator.</p> <p><i>Wild Horses, Unconquered People</i> tells the story of the Xeni Gwet'in First Nation and the wild horses that roam BC's remote and inaccessible Nemiah Valley and Brittany Triangle.</p> <p>In our children's programming, we have several series that promote broader awareness and understanding of First Nations history, cultures, and stories, such as <i>Inuk</i>.</p> |

| Specific Direction To The Corporation | Knowledge Actions in 2008/09 |
|--|--|
| <p>e) climate change awareness and education on ways to preserve the planet for future generations;</p> | <p>Program highlights: Energy: e2 is an investigation into alternative energy technologies. Big Ideas for a Small Planet II looks at the future of automobile fuel, from one woman's bio-diesel publicity campaign to a truck that runs on vegetable oil. Strange Days on Planet Earth follows scientists who believe life on earth is being pushed to extremes by a one-degree rise in average temperature. Arctic Mission follows the crew of the Sedna IV on a five-month, 21,000-kilometer scientific mission to record the impact of global warming. In addition to our programming, we developed our Climate Change Action Plan.</p> |
| <p>f) the experiences and interests of all age groups including young children, youth, and seniors; and,</p> | <p>We acquire, commission, and produce programs that educate and inform British Columbians of all ages.</p> |
| <p>g) the celebration and commemoration of the 150th anniversary of British Columbia as a Crown colony.</p> | <p>Knowledge premiered the documentary The Graduates: A History of Higher Education In BC.</p> |
| <p>h) the 2010 Olympic and Paralympic Winter Games.</p> | <p>Picture BC, developed in partnership with the UBCM and the Ministry of Tourism, Culture and the Arts, supports tourism during the 2010 Olympic and Paralympic Winter Games. Knowledge continues to offer support to the 2010 Olympic and Paralympic Winter Games.</p> |
| <p>Where appropriate, work with the public education system to coordinate educational programming.</p> | <p>Knowledge recruited two interns from Capilano University to work on a new media initiative.</p> |

Financial Report

Management Discussion and Analysis

Knowledge receives the majority of its funding through an annual operating grant from the Ministry of Advanced Education and Labour Market Development. As a not-for-profit organization, **Knowledge** also raises funds annually through donations from Partners In Knowledge across British Columbia. In fiscal 2007/08, we initiated two new activities to generate additional revenues: media partnerships and our endowment fund. The revenues from these activities are currently minimal; however, there is potential for significant growth in the coming years.

At year-end 2008/09, our auditors requested a change to our method of deferring our operating grant used to purchase capital assets. As a result, our surplus of \$769,560 now includes \$489,552 which otherwise would have been deferred to future years. The difference is \$280,000 of operating surplus.

In 2008/09, **Knowledge** completed four significant activities:

1. Restructuring business operations, including a 25% staff reduction.
2. Building transfer of 4355 Mathissi Place to BCIT, with a tenant agreement in place.
3. Completion of \$2.73M digital conversion.
4. Complete rebranding of KNC.

This past fiscal, **Knowledge** also received one-time funding to commission three documentaries: *First Voices* and *Steps Forward* (Ministry of Advanced Education and Labour Market Development) and *Artist in a Minute* (Ministry of Tourism, Culture and the Arts).

Our Summary of Financial Results and Budget Projections identify material budget and year variances for fiscal 2008/09. These variances are discussed in greater detail below.

Revenue

Provincial Operating and Other Grants

(1a) The budget variance refers to deferred revenues related to funding for commissioned productions and capital projects to be spent in fiscal 2009/10. This includes the aforementioned one-time funding for commissions.

(1b) The year variance is the one-time funding we received for commissioned productions and building operating costs in 2008/09.

Capital Grant

(2b) The year variance refers to the remaining funding from our \$2.73M digital conversion grant received from the Ministry of Advanced Education and Labour Market Development. This was a major endeavour spanning two fiscal years. In 2007/08 we received \$2.03M, and in 2008/09 we received \$700,000.

Self-Generated Revenue

(3a) The budget variance refers to our self-generated revenue activities, which were down this fiscal. We did not meet our Partners In Knowledge and media partnerships budget targets; however, we did reach an all-time high for Partners In Knowledge donations. (Note: budget targets are internal targets that differ from the Service Plan performance measure targets and forecasts).

(3b) The year variance refers to our actual increase in revenues compared to last year from Partners In Knowledge, media partnerships, and production-related management fees for Picture BC.

Deferred Revenue or Work in Progress

(4b) The year variance refers to funding for multi-year projects including our digital conversion, Picture BC, the Court of Appeal, and Baby's Best Chance.

Net Deferred Contributions Related to Capital Assets and Depreciation

(5a) The budget variance noted here is due to accounting entries related to deferred contributions amortized to match depreciation on capital assets. These accounting entries are not budgeted.

(5b) The year variance relates to an extraordinary write-down to broadcast assets made in 2007/08.

Other Revenue

(6a) The budget variance is made up of two components - endowment income we did not receive, and revenue from the disposal of assets we did not realize in 2008/09.

(6b) The year variance refers to the decrease compared to last fiscal in interest revenue, endowment income, revenue from disposal of assets, and the revenue from renting the cell tower (now transferred to BCIT).

Expenditures

Salaries and Benefits

(7b) The year variance reflects the reduction in salaries compared to 2007/08 as a result of restructuring.

Acquired Programming

(8a) The budget variance refers to the three new commissions we have budgeted for, but deferred until 2009/10. It also includes funds budgeted for 2nd window broadcast prelicenses that were not delivered in 2008/09.

(8b) The year variance refers to the increase in programming acquired in fiscal 2008/09 to support our new direction, compared to last year.

Programming Partnerships

(9a) The budget variance refers to production budget contingencies not required.

(9b) The year variance refers to final expenses paid on the Picture BC project.

Net Deferred Contributions Related to Capital Assets and Depreciation

(12a) The budget variance noted here is due to depreciation on capital assets. These accounting entries are not budgeted.

(12b) The year variance relates to the extraordinary write-down of broadcast assets made in 2007/08.

Facilities

(13b) The year variance refers to lower building operating costs as the building is now managed by BCIT.

Other Operating

(14a) The budget variance refers to a reduction in operating costs for telemarketing and communications, as parts of these budgets were redirected to support strategic goals.

(14b) The year variance is a result of our new branding initiative in 2008/09. It also reflects an increase in closed captioning costs compared to last fiscal, and includes the balance of our digital conversion commitments.

Capital Expenditures

(15b) The year variance reflects the difference between the amount of our digital conversion grant spent in fiscal 2007/08 to what was spent in 2008/09. In year one the equipment was purchased and in year two the equipment was installed and tested.

Financial Forecast 2009-2012

Our future financial projections do not reflect our commitments to our fourth and fifth strategic goals - Expansion of Original Content on Television and the Internet, and the Expansion of Independent Production Partnerships. Whereas we did receive one-time funding this fiscal for three BC documentary commissions, **Knowledge** may face challenges in fully implementing these goals due to the availability of funding over the long term.

Knowledge revenue growth has been and may continue to be impacted by the economic environment in BC. Changes to our business model

have placed us in a better position to weather the current financial crisis; however, we are paying close attention to changes in our industry resulting from the financial downturn.

Knowledge is developing plans to mitigate some of the risks tied to revenue generation. We are building targeted campaigns diversifying our donor base, and are exploring other opportunities to rent or lease our studio facilities. We are also launching our new interactive website in winter 2009.

Knowledge is in the early planning stages of moving to high-definition broadcasts. High-definition television (HDTV) is a digital television broadcasting system with higher resolution than traditional television systems. It is anticipated that HDTV will eventually become the industry standard in North America. Our digital platform is HD-ready; however, a capital investment will be required to fully implement an HD system.

Final decisions have not yet been made regarding changes to the Canadian Television Fund (CTF), from which producers of **Knowledge** commissions receive money from our designated CTF envelope. **Knowledge** is working closely with the Association for Tele-Education in Canada (ATEC) to champion equitable access to funding for British Columbia's independent production sector.

Subsidiary Information

Knowledge-West Communications Corporation (KWCC) was incorporated in 1981 and is wholly owned by Knowledge Network Corporation. KWCC has been inactive since 1990; our intention is to wind up the subsidiary in 2009/10.

Summary of Financial Results and Budget Projections - 2005/06 to 2011/12

| | | | | | | (A) | (B) | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|------------------|---------------------|---------------------|---------------------|
| | 2005/06 ACTUAL | 2006/07 ACTUAL | 2007/08 ACTUAL | 2008/09 ACTUAL | 2008/09 BUDGET | BUDGET VARIANCE | YEAR VARIANCE | 2009/10 FORECAST | 2010/11 FORECAST | 2011/12 FORECAST |
| 1. Provincial Operating and Other Grants (Note 1) | 6,257,135 | 7,893,700 | 7,299,307 | 7,796,624 | 8,571,624 | (775,000) | 497,317 | 6,409,506 | 6,409,506 | 6,409,506 |
| 2. Capital Grant | 75,000 | - | 2,195,000 | 700,000 | 700,000 | - | (1,495,000) | - | - | - |
| 3. Self-Generated Revenue | 3,556,412 | 3,133,522 | 3,009,408 | 3,358,618 | 3,559,290 | (200,672) | 349,210 | 2,150,000 | 2,450,000 | 2,450,000 |
| 4. Deferred Revenue or Work in Progress | (107,006) | (1991) | (163,478) | 502,027 | 502,027 | 0 | 665,505 | - | - | - |
| 5. Net Deferred Contributions Related to Capital Assets & Depreciation | 159,099 | 230,519 | 116,949 | 468,279 | 394,468 | 73,811 | 351,321 | - | - | - |
| 6. Other Revenue | 199,224 | 333,390 | 539,053 | 264,525 | 303,252 | (38,727) | (274,529) | 84,000 | 84,000 | 84,000 |
| Total Revenue | 10,139,864 | 11,589,140 | 12,996,239 | 13,090,074 | 14,030,661 | (940,587) | 93,835 | 8,943,506 | 8,943,506 | 8,943,506 |
| 7. Salaries and Benefits | 4,668,152 | 4,758,517 | 5,955,136 | 4,046,5 | 4,328,468 | (282,123) | (1908,791) | 3,929,490 | 3,929,490 | 3,929,490 |
| 8. Acquired Programming | 1,464,918 | 2,030,554 | 1,843,850 | 2,594,559 | 3,542,890 | (948,331) | 750,709 | 1,542,231 | 2,273,231 | 2,273,231 |
| 9. Programming Partnerships | - | 1,478,147 | 1,102,788 | 1,277,673 | 1,382,921 | (105,248) | 174,885 | 120,000 | 120,000 | 120,000 |
| 10. New BC Originated Content from Independent Sector | - | - | - | - | - | - | - | 731,000 | - | - |
| 11. Signal Distribution | 395,471 | 395,471 | 370,952 | 370,952 | 371,000 | (48) | - | 371,600 | 371,600 | 371,600 |
| 12. Net Deferred Contributions Related to Capital Assets & Depreciation | 268,163 | 312,959 | 116,949 | 515,292 | 394,468 | 120,824 | 398,344 | - | - | - |
| 13. Facilities | 802,001 | 686,513 | 696,059 | 467,663 | 467,011 | 652 | (228,396) | 360,000 | 360,000 | 360,000 |
| 14. Other Operating | 2,684,676 | 1,548,101 | 1,320,581 | 2,348,029 | 2,359,166 | (11,137) | 1,027,447 | 1,824,185 | 1,824,185 | 1,824,185 |
| Total Expenditure | 10,283,376 | 11,210,362 | 11,406,315 | 11,620,513 | 12,845,942 | (1,225,411) | 214,198 | 8,878,506 | 8,878,506 | 8,878,506 |
| Excess (Deficiency) of Revenue over Expenditure for the year (Note 2) | (143,512) | 378,778 | 1,589,924 | 1,469,562 | 1184,737 | 284,825 | (120,362) | 65,000 | 65,000 | 65,000 |
| 15. Capital Expenditures (Note 2) | 376,707 | 359,977 | 1,590,148 | 1,189,552 | 1,184,737 | (13,797) | (419,208) | 65,000 | 65,000 | 65,000 |
| 16. Staffing (Actual and Budgeted FTE) | 54.4 | 58.4 | 57.4 | 42.8 | 47.7 | (4.9) | (14.6) | 44.5 | 44.5 | 44.5 |

Note 1. The 2008/09 actuals include a \$1.4M one-time operating grant not included in the 2008 Service Plan budget.

Note 2. The excess of revenue over expenditure of \$1,469,562 less capital expenditures of \$1,189,552 is \$280,010. This amount is reconciled on the audited Statement of Changes in Net Assets. excess of revenue over expenditure of \$769,560 less internally funded capital asset purchases of \$489,552 is \$280,008.

Summary of Financial Results and Budget Projections - 2005/06 to 2011/12

| | | | | | | | (A) | (B) | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|------------------|---------------------|---------------------|---------------------|--|
| | 2005/06 ACTUAL | 2006/07 ACTUAL | 2007/08 ACTUAL | 2008/09 ACTUAL | 2008/09 BUDGET | BUDGET VARIANCE | YEAR VARIANCE | 2009/10 FORECAST | 2010/11 FORECAST | 2011/12 FORECAST | |
| 1. Provincial Operating and Other Grants (Note 1) | 6,257,135 | 7,893,700 | 7,299,307 | 7,796,624 | 8,571,624 | (775,000) | 497,317 | 6,409,506 | 6,409,506 | 6,409,506 | |
| 2. Capital Grant | 75,000 | - | 2,195,000 | 700,000 | 700,000 | - | (1,495,000) | - | - | - | |
| 3. Self-Generated Revenue | 3,556,412 | 3,133,522 | 3,009,408 | 3,358,618 | 3,559,290 | (200,672) | 349,210 | 2,450,000 | 2,450,000 | 2,450,000 | |
| 4. Deferred Revenue or Work in Progress | (107,006) | (1,991) | (163,478) | 502,027 | 502,027 | 0 | 665,505 | - | - | - | |
| 5. Net Deferred Contributions Related to Capital Assets & Depreciation | 159,099 | 230,519 | 116,949 | 468,279 | 394,468 | 73,811 | 351,331 | - | - | - | |
| 6. Other Revenue | 199,224 | 333,390 | 539,053 | 264,525 | 303,252 | (38,727) | (274,529) | 84,000 | 84,000 | 84,000 | |
| Total Revenue | 10,139,864 | 11,589,140 | 12,996,239 | 13,090,074 | 14,030,661 | (940,587) | 93,835 | 8,943,506 | 8,943,506 | 8,943,506 | |
| 7. Salaries and Benefits | 4,668,152 | 4,758,517 | 5,955,136 | 4,046,345 | 4,328,468 | (282,123) | (1,908,791) | 3,929,490 | 3,929,490 | 3,929,490 | |
| 8. Acquired Programming | 1,464,914 | 2,030,554 | 1,843,850 | 2,594,559 | 3,542,890 | (948,331) | 750,709 | 1,542,231 | 2,273,231 | 2,273,231 | |
| 9. Programming Partnerships | - | 1,478,147 | 1,102,788 | 1,277,673 | 1,382,921 | (105,248) | 174,885 | 120,000 | 120,000 | 120,000 | |
| 10. New BC Originated Content from Independent Sector | - | - | - | - | - | - | - | 731,000 | - | - | |
| 11. Signal Distribution | 395,471 | 395,471 | 370,952 | 370,952 | 371,000 | (48) | - | 371,600 | 371,600 | 371,600 | |
| 12. Net Deferred Contributions Related to Capital Assets & Depreciation | 268,163 | 312,959 | 116,949 | 515,292 | 394,468 | 120,824 | 398,344 | - | - | - | |
| 13. Facilities | 802,001 | 686,613 | 696,059 | 467,663 | 467,011 | 652 | (228,396) | 360,000 | 360,000 | 360,000 | |
| 14. Other Operating | 2,684,676 | 1,548,101 | 1,320,581 | 2,348,029 | 2,357,166 | (11,137) | 1,027,447 | 1,824,185 | 1,824,185 | 1,824,185 | |
| Total Expenditure | 10,283,376 | 11,210,362 | 11,406,315 | 11,620,511 | 12,845,942 | (1,225,411) | 214,198 | 8,878,506 | 8,878,506 | 8,878,506 | |
| Excess (Deficiency) of Revenue over Expenditure for the year (Note 2) | (143,512) | 378,778 | 1,589,924 | 1,469,562 | 1,184,737 | 284,825 | (120,362) | 65,000 | 65,000 | 65,000 | |
| 15. Capital Expenditures (Note 2) | 376,707 | 359,977 | 1,590,148 | 1,189,552 | 1,184,737 | (13,797) | (419,208) | 65,000 | 65,000 | 65,000 | |
| 16. Staffing (Actual and Budgeted FTE) | 54.4 | 58.4 | 57.4 | 42.8 | 47.7 | (4.9) | (14.6) | 44.5 | 44.5 | 44.5 | |

Note 1: The 2008/09 actuals include a \$1.4M one-time operating grant not included in the 2008 Service Plan budget.

Note 2: The excess of revenue over expenditure of \$1,469,562 less capital expenditures of \$1,189,552 is \$280,010. This amount is reconciled on the audited Statement of Changes in Net Assets: excess of revenue over expenditure of \$769,560 less internally funded capital asset purchases of \$489,552 is \$280,008.

Appendix A – 2008/09 Audited Financial Statements



May 15, 2009

In connection with the Auditor General's examination of the financial statements of the Province of BC for the fiscal year-ended March 31, 2009, we hereby confirm to the best of our knowledge and belief the following items related to the audited financial statements of Knowledge Network Corporation:

Financial balances

- 1) The balances of the Crown corporation's revenue, expenditure, asset and liability accounts, as reflected in our audited statements as at the financial statement date present fairly, in all material respects, the Crown corporation's balances.
- 2) The Crown corporation's reported results and balances are prepared in accordance with Canadian generally accepted accounting principles and in accordance with the stated financial and accounting policies of our audited financial statements.

Fraud and error

- 3) The Crown corporation acknowledges its responsibility for the design, implementation and operation of internal controls that are designed to ensure the accuracy and completeness of its financial statement information and to prevent and detect fraud and error.
- 4) The Crown corporation has an internal controls system that assures the integrity of data supplied to the Office of the Comptroller General and has an ongoing process to review, evaluate, and report to management on the adequacy of the controls as well as performance and compliance to established controls.
- 5) The Crown corporation acknowledges its responsibility to disclose to the Office of the Comptroller General all significant facts relating to any fraud or suspected fraud, and any allegations known to management that may effect the Province's financial statements.

Completeness of Information

- 6) There are no material transactions or agreements, directly or indirectly related to the Crown corporation, that have not been properly recorded in our accounting records.
- 7) To the best of our knowledge, we are unaware of any known or probable instances of non-compliance with the requirements of governmental authorities, including their financial reporting requirements.
- 8) To the best of our knowledge, we are unaware of any violations or possible violations of laws or regulations; the effect of which should be considered for disclosure or as a basis for recording a loss contingency.

Recognition, measurement and disclosure

- 9) The Crown corporation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in our accounting balances.
- 10) All related-party transactions including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties have been appropriately measured and disclosed by the Crown corporation, including non-monetary transactions and transactions for no consideration.
- 11) The nature of all material measurement uncertainties has been appropriately disclosed, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material.
- 12) We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel.
- 13) All known liabilities of the Crown corporation, whether written or oral, have been disclosed and appropriately reflected in the financial statement balances. We have no knowledge of any unrecorded liabilities that would in our opinion materially affect the financial results or balances of the Crown corporation.
- 14) All known contingent liabilities arising from legal action, where the estimated or known claim is or exceeds \$100,000 that have not reached the litigation stage have been appropriately accrued or disclosed (e.g. environmental clean-ups, Aboriginal land claims).

- 15) Guarantees under which the Crown corporation is contingently liable have been disclosed and appropriately recorded.
- 16) The Crown corporation has satisfactory title to all assets and there are no liens or encumbrances on those assets as at March 31. Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements. This includes appropriate provisions for idle or obsolete assets or where site restoration costs will be necessary.
- 17) Receivables recorded in our accounting records represent valid claims arising on, or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
- 18) We have disclosed all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements or all outstanding debts. Contractual obligations costing more than \$50 million have been disclosed.
- 19) There have been no events, including the introduction of new or amended legislation or regulations, which have occurred subsequent to the Crown corporation's substantial completion date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
- 20) There is nothing, to our knowledge, that has not been disclosed to you that would affect the expression of the Auditor General's opinion of the financial statements.

Yours truly,



Jeffrey Lee, CGA
Chief Financial Officer



Grant Thornton

Financial Statements

Knowledge Network Corporation

(formerly Open Learning Agency)

March 31, 2009

Contents

| | Page |
|------------------------------------|------|
| Auditors' report | 1 |
| Statement of Operations | 2 |
| Statement of Financial Position | 3 |
| Statement of Changes in Net Assets | 4 |
| Statement of Cash Flows | 5 |
| Notes to the Financial Statements | 6-11 |



Grant Thornton

Auditors' report

Grant Thornton LLP
Suite 1600, Grant Thornton Place
333 Seymour Street
Vancouver, BC
V6B 0A4
T (604) 687-2711
F (604) 685-6569
www.GrantThornton.ca

To the Board of Directors of

Knowledge Network Corporation

We have audited the statement of financial position of Knowledge Network Corporation (formerly Open Learning Agency) as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Vancouver, Canada

May 22, 2009

Chartered accountants

Knowledge Network Corporation
 (formerly Open Learning Agency)
Statement of Operations

Year Ended March 31

| | 2009 | 2008 |
|---|-----------------------|-------------------|
| Revenue | | |
| Province of British Columbia | | |
| Operating grants | \$ 7,716,499 | \$ 7,625,405 |
| Specified grants and contracts | 80,125 | 279,198 |
| Donations and sponsorships | 2,228,362 | 2,717,357 |
| Flowthrough project funding | 1,511,436 | - |
| Amortization of deferred contributions (Note 7) | 468,279 | 488,622 |
| Miscellaneous | 257,334 | 447,545 |
| Interest | 75,542 | 125,109 |
| Sales | 101,275 | 87,988 |
| User fees and rentals | 19,572 | 31,010 |
| Loss on investments | <u>(68,351)</u> | <u>(24,025)</u> |
| Total revenue | 12,390,073 | 11,778,209 |
| Expenditure | | |
| Salaries, honoraria and benefits | 4,046,345 | 5,722,941 |
| Purchased services | 1,666,788 | 2,065,954 |
| Program acquisitions | 2,594,559 | 1,843,850 |
| Flowthrough project expenses | 1,277,673 | - |
| Facilities rental and maintenance | 467,663 | 696,059 |
| Amortization of property and equipment | 515,292 | 488,622 |
| Materials, supplies and postage | 421,117 | 431,580 |
| Satellite transmission services | 370,952 | 370,952 |
| Miscellaneous | 151,510 | 156,880 |
| Equipment rental, financing and maintenance | 88,138 | 118,497 |
| Travel | 72,701 | 92,129 |
| Communications | 57,728 | 72,369 |
| Expense recovery, building operating costs | <u>(109,953)</u> | <u>(281,400)</u> |
| Total expenditure | 11,620,513 | 11,778,433 |
| Excess (deficiency) of revenue over expenditure before unusual items | 769,560 | (224) |
| Unusual items | | |
| Loss on transfer of land and building (Note 6) | (2,979,794) | - |
| Write-down of capital assets, net (Note 6) | - | - |
| Deficiency of revenue over expenditure | \$ (2,210,234) | \$ (224) |

See accompanying notes to the financial statements

Knowledge Network Corporation

(formerly Open Learning Agency)

Statement of Financial Position

March 31

2009

2008

Assets

Current

| | | |
|----------------------------------|--------------|---------------|
| Cash | \$ 1,917,298 | \$ 3,799,923 |
| Short term investments (Note 5) | 1,490,572 | - |
| Accounts receivable and prepaids | 108,052 | 151,454 |
| Work in progress, projects | - | 20,360 |
| | 3,515,922 | 3,971,737 |
| Restricted investments (Note 5) | 331,348 | 337,939 |
| Capital assets (Note 4) | 3,729,723 | 13,612,851 |
| | \$ 7,576,993 | \$ 17,922,527 |

Liabilities

Current

| | | |
|---|--------------|--------------|
| Payables and accruals | \$ 1,156,816 | \$ 1,754,151 |
| Deferred revenue, projects | 808,179 | 522,387 |
| | 1,964,995 | 2,276,538 |
| Deferred contributions, capital assets (Note 7) | 3,349,334 | 11,237,910 |
| | 5,314,329 | 13,514,448 |

Net assets

| | | |
|----------------------------|--------------|---------------|
| Endowment fund | 413,676 | 348,857 |
| Invested in capital assets | 442,539 | 2,979,794 |
| Unrestricted | 1,406,449 | 1,079,428 |
| | 2,262,664 | 4,408,079 |
| | \$ 7,576,993 | \$ 17,922,527 |

Operations (Note 1)

Commitments (Note 8)

Approved:

Chair of the Board

President and Chief Executive Officer

Knowledge Network Corporation
 (formerly Open Learning Agency)
Statement of Changes in Net Assets

Year Ended March 31

2009 2008

| | Endowment Fund | Invested in Capital Assets | Unrestricted | Total | Total |
|---|-------------------|----------------------------------|--------------|--------------|--------------|
| Net assets, beginning of year | \$ 348,857 | \$ 2,979,794 | \$ 1,079,428 | \$ 4,408,079 | \$ 4,105,255 |
| Changes during the year | | | | | |
| Excess (deficiency) of revenue over expenditure before unusual items | - | (47,013) | 816,573 | 769,560 | (224) |
| Loss on transfer of land and building | - | (2,979,794) | - | (2,979,794) | - |
| Internally funded capital assets purchase | - | (3,026,807) | 816,573 | (2,210,234) | (224) |
| Endowments | 64,819 | 489,552 | (489,552) | - | 303,048 |
| | 64,819 | (2,537,255) | 327,021 | (2,145,415) | 302,824 |
| Net assets, end of year | \$ 413,676 | \$ 442,539 | \$ 1,406,449 | \$ 2,262,664 | \$ 4,408,079 |

See accompanying notes to the financial statements

Knowledge Network Corporation

(formerly Open Learning Agency)

Statement of Cash Flows

Year Ended March 31

2009

2008

Cash flows provided by (used in)

Operating activities

| | | |
|--|------------------|----------------|
| Deficiency of revenue over expenditure | \$ (2,210,234) | \$ (224) |
| Adjustments to determine cash flows: | | |
| Loss on investments | 68,351 | 24,025 |
| Loss on transfer of land and building | 2,979,794 | - |
| Amortization of deferred contributions | (468,279) | (488,622) |
| Amortization of property and equipment | 515,292 | 488,622 |
| Change in non-cash operating working capital | <u>(247,781)</u> | <u>720,319</u> |
| | <u>637,143</u> | <u>744,120</u> |

Financing activities

| | | |
|-----------------------------|----------------|------------------|
| Grants for capital assets | 700,000 | 2,195,000 |
| Receipts of endowment funds | <u>64,819</u> | <u>303,048</u> |
| | <u>764,819</u> | <u>2,498,048</u> |

Investing activities

| | | |
|---------------------------------------|--------------------|--------------------|
| Short term and restricted investments | (1,552,332) | 152,782 |
| Purchase of equipment | <u>(1,732,255)</u> | <u>(1,590,147)</u> |
| | <u>(3,284,587)</u> | <u>(1,437,365)</u> |

(Decrease) increase in cash

| | | |
|-----------------------------|---------------------|---------------------|
| (Decrease) increase in cash | (1,882,625) | 1,804,803 |
| Cash, beginning of year | <u>3,799,923</u> | <u>1,995,120</u> |
| Cash, end of year | <u>\$ 1,917,298</u> | <u>\$ 3,799,923</u> |

Change in non-cash operating working capital

| | | |
|----------------------------|---------------------|-------------------|
| Accounts receivable | \$ 43,402 | \$ 268,300 |
| Grants receivable | - | 100,000 |
| Work in progress, projects | 20,360 | (12,954) |
| Payables and accruals | (597,335) | 108,321 |
| Deferred revenue, projects | <u>285,792</u> | <u>256,652</u> |
| | <u>\$ (247,781)</u> | <u>\$ 720,319</u> |

Non-cash investing and operating activities not included
in cash flows (Note 6)

| | | |
|---|---------------|-------------|
| Transfer of land and building to BCIT | \$ 11,100,091 | \$ - |
| Write-down of capital assets | - | 1,218,474 |
| Amortization of deferred contribution relating to write down of capital assets | - | (1,218,474) |

See accompanying notes to the financial statements

Knowledge Network Corporation

(formerly Open Learning Agency)

Notes to the Financial Statements

March 31, 2009

1. Operations

In prior years, the Open Learning Agency operated under the Open Learning Agency Act. In the current year, the Knowledge Network Corporation Act received Royal Assent and the entity officially became a crown corporation as Knowledge Network Corporation (the "Corporation"). The Corporation continues to be a registered charity under the provision of the Income Tax Act of Canada.

Knowledge Network Corporation is British Columbia's public educational television broadcaster. The principal source of funding is from the Ministry of Advanced Education and Labour Market Development.

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Use of estimates

In conformity with generally accepted accounting principles, management is required to make estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. Actual results could differ from those reported.

Capital assets

Purchased capital assets are recorded at cost. Equipment is amortized over the estimated useful life on the declining balance basis at 10% to 30% per annum and leasehold improvements are amortized over the term of the lease. Additions in the current year are amortized at half the normal rate. Disposals in the current year are amortized to the month of disposal.

Revenue recognition

The Corporation follows the deferral method of accounting for contributions. Under this method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Donations are recorded on the cash basis.

Deferred contributions for capital assets

Government grants related to the acquisition of capital assets are deferred and amortized to income on the same basis as the related asset is depreciated or disposed.

Knowledge Network Corporation

(formerly Open Learning Agency)

Notes to the Financial Statements

March 31, 2009

2. Summary of significant accounting policies (Continued)

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, available for sale, loans and receivables, or other financial liabilities.

All financial instruments are measured at fair value except for loans and receivables, held-to-maturity, and other financial liabilities which are measured at amortized cost using the effective interest method. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available for sale financial instruments are measured at fair value with changes in fair value recorded in net assets. Loans and receivables, investments, held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest rate methods.

Fair values are based on quoted market values where available from active markets.

The Corporation has classified their financial instruments as follows:

- cash as held-for-trading
- accounts receivable as loans and receivables
- investments as held-for-trading
- payables and accruals as other financial liabilities

Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

3. Change in accounting policies

Current year changes

Effective April 1, 2006, the Corporation adopted The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 *Capital Disclosures*.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and procedures and process for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The impact of this new accounting standard on the Corporation's financial statements is disclosed in Note 12.

Knowledge Network Corporation
(formerly Open Learning Agency)
Notes to the Financial Statements

March 31, 2009

3. Change in accounting policies (Continued)

Future changes

Recent amendments to CICA Handbook Section 4400 *Financial Statement Presentation by Not-for-Profit Organizations* will modify the requirements with respect to various elements of financial statement presentation. These amendments include:

- reporting certain revenues' gross in the statement of revenues and expenditures;
- making Section 1540 *Cash Flow Statements* applicable to not for profit organizations;
- when a not for profit organization classifies its expenses by function and allocates some of its fundraising and general support costs to another function, disclosing the policy adopted for expenses and amounts allocated from each of these two functions to other functions; and,
- the elimination of the requirement to treat net assets invested in capital assets as a separate component of net assets.

Section 4460 *Disclosure of Related Party Transactions by Not-for-Profit Organizations* has been amended to align the definition of related parties to CICA 3840 *Related Party Transactions*. Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or significant influence. Two not for profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

Section 4470 *Disclosure of Allocated Expenses by Not-for-Profit Organizations* establishes disclosure standards for a not for profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate.

These standards will be effective for the Corporation's 2010 fiscal year end. Management does not expect the adoption of these sections to have a material effect on the Corporation's financial statements.

| 4. Capital assets | | 2009 | | 2008 | |
|-----------------------------|---------------|---------------|--------------------------|----------------|----------------|
| | | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | \$ - | \$ - | \$ - | \$ 2,979,794 | |
| Building | | | | | 8,177,000 |
| Furniture and fixtures | 855,893 | 701,986 | 153,907 | 147,374 | |
| Equipment | 2,507,696 | 2,403,386 | 104,310 | 90,519 | |
| Computer equipment | 2,719,503 | 2,013,279 | 706,224 | 455,464 | |
| Software | 365,755 | 356,765 | 8,990 | 17,979 | |
| Broadcast network equipment | 12,633,524 | 9,910,432 | 2,723,092 | 1,744,721 | |
| Leasehold improvements | 36,889 | 3,689 | 33,200 | | |
| | \$ 19,119,260 | \$ 15,389,537 | \$ 3,729,723 | \$ 13,612,851 | |

Knowledge Network Corporation

(formerly Open Learning Agency)

Notes to the Financial Statements

March 31, 2009

5. Investments

a) Short term investments

Short term investments consist of bonds. The bond yield ranges from 1.2% to 2.3% with maturity dates on these instruments ranging between May 2014 and November 2017. Investments are classified as held-for-trading and are measured at the fair value at each reporting period with the changes in fair value included in the statement of operations.

b) Restricted investments

Restricted investments consist of mutual funds used for endowment awards. Investments are classified as held-for-trading and are measured at the fair value at each reporting period with the changes in fair value included in the statement of operations.

6. Disposal of capital assets

a) Write-down of capital assets

In 2008 the Corporation wrote down analogue broadcast equipment as it was replaced with digital equipment, resulting in a loss of \$1,218,474. This loss was offset by recognizing deferred capital contribution revenue of \$1,218,474 relating to the analogue broadcast equipment. This resulted in a nil net effect in the prior year on the statement of operations.

b) Transfer of land and Building to British Columbia Institute of Technology ("BCIT")

On June 13, 2008 the Ministry of Advanced Education and Labour Market Development instructed the Corporation to transfer ownership of the land and building to BCIT by way of lease agreement and consideration of \$10. The transfer resulted in a loss of \$2,979,794.

The lease agreement entered into with BCIT is for a ten-year lease with an annual rent of \$1.00, plus the Corporation's proportionate share of common area operating expenses. In 2009 the common area operating expense paid to BCIT was approximately \$30,000 per month.

The fair value of this lease agreement is not determinable and thus no asset and corresponding liability has been recorded.

Knowledge Network Corporation
(formerly Open Learning Agency)
Notes to the Financial Statements

March 31, 2009

7. Deferred contributions

Deferred contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. Amortization of deferred capital contributions is recorded as revenue.

| | 2009 | 2008 |
|--|---------------------|----------------------|
| Balance, beginning of year | \$ 11,237,910 | \$ 10,750,006 |
| Contributions received | 700,000 | 2,195,000 |
| Less: | | |
| Amounts recognized as revenue | (468,279) | (488,622) |
| Amounts relating to ownership transfer of building | (8,120,297) | - |
| Amounts relating to write-down of capital assets (Note 6) | - | (1,218,474) |
| Balance, end of year | <u>\$ 3,349,334</u> | <u>\$ 11,237,910</u> |

The balance of unamortized capital contributions related to capital assets consists of the following:

| | | |
|---|---------------------|----------------------|
| Unamortized contributions for purchase of capital assets | \$ 3,287,184 | \$ 10,633,058 |
| Unspent capital funding | 62,150 | 604,852 |
| | <u>\$ 3,349,334</u> | <u>\$ 11,237,910</u> |

8. Commitments

Satellite transmission services

The Corporation acquires satellite transmission services at an annual cost of approximately \$370,000 under agreements that are renewed annually.

9. Related party transactions

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

Knowledge Network Corporation

(formerly Open Learning Agency)

Notes to the Financial Statements

March 31, 2009

10. Pensions

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension Plan has over 11,000 active members from college senior administration and instructional staff and approximately 3,500 retired members. The Municipal Pension Plan has about 150,000 active members, with approximately 5,000 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The valuation for the College Pension Plan as at August 31, 2006 indicated an unfunded liability of \$54 million for basic pension benefits. The next valuation will be as at August 31, 2009, with results available in 2010. The most recent valuation for the Municipal Pension Plan as at December 31, 2006 indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the unfunded liability to individual employers.

Contributions to the plans in the current year amounted to \$287,265 (2008: \$317,533).

11. Financial instruments

The Corporation's financial instruments include cash, short term investments, and restricted investments and have been recorded at their fair value. The carrying value of accounts receivable and payable and accruals approximate their fair values due to their immediate or short term maturity.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant currency, liquidity or credit risks arising from these financial instruments.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation is exposed to fair value and interest rate risks on its short term and restricted investments.

12. Capital management

The capital structure of the Corporation consists of net assets invested in the endowment fund, invested in capital assets, and unrestricted net assets. The primary objective of the Corporation's capital management is to provide financial flexibility to take advantage of future strategic opportunities.

The net assets invested in the endowment fund provide income to advance programming initiatives. Contributed principal to the endowment funds are held in perpetuity and invested in accordance with the Corporation's investment policy.

Net assets invested in capital assets represent the amount of net assets that are not available for other purposes because they have been invested.

Unrestricted net assets are funds available for the Corporation's future operations

Knowledge:

Contact Information

More information about **Knowledge** is available at:

Knowledge Network Corporation

4355 Mathissi Place

Burnaby, British Columbia

V5G 4S8

Phone: 604.431.3222

Toll Free: 1.877.456.6988

Email: knonline@knowledge.ca

Website: Knowledge.ca





